

## **Earned Income Tax Credit (EITC)**

### **Talking Points for tax year 2001**

The Earned Income Tax Credit (EITC) is a refundable tax credit for people who work and have earned income from employment or self-employment below established amounts. Dollar amount limitations are adjusted for inflation each year. The credit reduces the amount of tax owed and may also provide a refund. The EITC is available to anyone who qualifies for the credit and files a federal income tax return (even if no tax is due).

- There are no changes to the EITC tax law for tax year 2001.
- For tax year 2001, both earned income and modified AGI must be less than:
  - \$32,121 with more than one qualifying child
  - \$28,281 with one qualifying child
  - \$10,710 without a qualifying child
- To qualify for the credit for tax year 2001, a taxpayer:
  - Must have a valid Social Security number.
  - Cannot use the filing status married filing separately.
  - Must have been a U.S. citizen or resident alien all year (there is an exception for certain married persons).
  - Cannot file Form 2555 or 2555-EZ, *Foreign Earned Income*.
  - Cannot have investment income (such as interest) of more than \$2,450.
  - Must have earned income.
  - Cannot be the qualifying child of another person.
- An EITC qualifying child must meet the following relationship, age, and residency tests.
  - The child must be the taxpayer's son, daughter, adopted child, grandchild, great-grandchild, stepchild, or eligible foster child.
  - The child must have been under age 19 at the end of 2001, a full time student under 24 at the end of 2001, or permanently and totally disabled at any time during 2001, regardless of age.
  - The child must have lived with the taxpayer in the U.S. for more than half of 2001, or all of 2001 for an eligible foster child.
- A correct and valid Social Security number (SSN) must be provided for each qualifying child listed on Schedule EIC, unless the child was born and died during the tax year. File Form SS-5 with the Social Security Administration if an SSN is needed
- Some of the more common reasons for disallowance of the EITC are:
  - Taxpayers claiming a child who is not their qualifying child.
  - Taxpayers claiming a qualifying child who is also the qualifying child of someone else with a higher modified AGI.

- Married taxpayers who should file under the *married filing separately* status, but who file as *single* or *head of household* instead.
  - Income reporting errors.
  - Taxpayers or qualifying children with mismatched or incorrect SSNs.
- The Advance Earned Income Tax Credit (AEITC) is available for some individuals who qualify for the EITC. It allows them to get part of the credit throughout the year in their paychecks. The AEITC can give taxpayers both a paycheck “boost” while they’re working and a refund “bonus” when they file their return. There is no cost to employers. Employers reduce the amount of their required federal tax deposits by the advance payments and report the advance payments on Form 941. Taxes are not withheld from AEITC payments.
- To qualify for and receive the AEITC in 2002, an employee must:
  - Complete Form W-5, *Earned Income Credit Advance Payment Certificate*, and give it to the employer.
  - Expect to have at least one EITC qualifying child.
  - Expect to work and have earned income and adjusted gross income of less than about \$ 28,000.
  - Have wages that are subject to federal income, social security, or Medicare tax withholding.
  - Expect to meet all the rules in the instructions of Form W-5 for the EITC for 2002.
- Form W-5 contains additional information for married taxpayers, taxpayers with more than one job, and taxpayers whose situation changes during the year.
- Taxpayers who receive advance payments **MUST** file Form 1040 or Form 1040A for tax year 2002, even if they own no tax for 2002.